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FISCAL COUNCIL

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Fiscal Council's view of the opinion of the European Commission regarding the Draft Budget Plan 2018

In its opinion Regarding the Draft Budget Plan 2018[1], published today, the European Commission states that the draft budget plan is only partly in line with the fiscal rules applicable to the Stability and Growth Pact. The Fiscal Council findings were similar in its Assessment of the Compliance of Budget Documents for the period 2018-2020 with the Fiscal Rules, published in October this year[2].

Both the Fiscal Council and the European Commission are of the opinion that there is a risk associated with the compliance with the rule on the structural effort and the expenditure rule, while the debt reduction rule is deemed to have been complied with. In the opinion of the Commission, pressures to further increase general government expenditure, particularly wages and pensions, represent the greatest risk. The Commission also points to the absence of the measures to ensure gradual removal of the structural balance deficit in the medium term, which was also pointed out by the Fiscal Council.

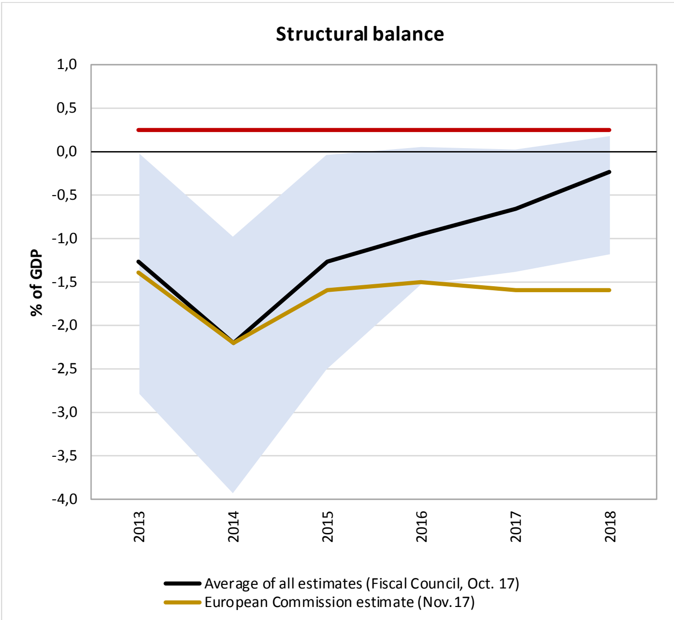
The differences in the opinions of the European Commission and of the Fiscal Council are the result of using different assumptions and macroeconomic forecasts. The European Commission bases its opinion on its own forecasts of macroeconomic and budgetary aggregates. The latter are based on a no-policy-change assumption under which the forecasts do not take into account fiscal policy measures that are not yet supported by appropriate legislation. Moreover, the European Commission uses the output gap calculation method agreed at the EU level to determine the structural balance and the structural effort, according to which the Slovenian economy has been overheating already in 2017.[3] The estimate of the cyclical position of the economy represents a key difference between the estimates of the Fiscal Council and of the European Commission since the Fiscal Council believes that the Slovenian economy is currently in the positive area of the normal economic cycle[4], implying that the current and the forecast economic growth do not cause any major macroeconomic imbalances.

The different indicators of the cyclical condition of Slovenia's economy indicate that, in case of further improvement of the current and forecast economic conditions, the increase of the

[1]https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2018_en
[2]http://www.fs-rs.si/ocena-fiskalnega-sveta-skladnost-proracunskih-dokumentov-za-leta-2018%e2%88%922020-s-fiskalnimi-pravili/
[3]https://ec.europa.eu/info/sites/info/files/economy-finance/autumn_2017_economic_forecast_-_statistical_annex.pdf
[4]According to the definition by the European Commission, the economy is in a period of normal economic cycle, when the output gap is in the interval between -1.5 per cent and 1.5 per cent of the potential GDP and exceeding the 1.5 per cent limit would mean a transition to a good economic cycle, i.e. overheating.

required fiscal effort in the framework of the Stability and Growth Pact from the current minimum of 0.6 per cent of GDP to at least 1.0 per cent of GDP in one year would become increasingly justified. However, current, i.e. recently adopted budget documents correspond to the currently required improvement in the structural fiscal balance of at least 0.6 per cent of the GDP in one year only at a margin. Therefore, the Fiscal Council again emphasises the need for a consistently restrictive fiscal policy and calls on all stakeholders to act rationally and thus contribute to achieving the public finances position that will allow the fiscal policy to respond appropriately also in the periods when economic growth is reduced and demographic pressures accumulate further.

Figure: **Comparison between the structural fiscal balance estimates of the Fiscal Council and of the European Commission**



Note: The shaded area shows the minimum and maximum estimates of the structural fiscal balance based on the Ministry of Finance estimates for the general government sector balance and of the various output gap estimates. The "average of all estimates" contains the structural balance calculations based on the output gap estimates provided by the institutions listed as sources. The "average of all estimates" includes, in addition to the first estimate, also the structural balance calculations based on the output gap estimates by applying statistical models (the potential output is determined by the HP filter at various values of parameter λ (100, 400, 1600) and with a 7-year GDP average).
Source: data from IMAD, Ministry of Finance, European Commission, IMF, OECD and Fiscal Council, and calculations by the Fiscal Council.